

International Charity Collections, Projects and Wires Revised November, 2017

A number of parishes have developed relationships over the years with international parishes, dioceses and other organizations to help fund efforts in foreign countries to build schools, churches, orphanages, medical facilities, water treatment facilities, etc. Certain parishes involve 501c3 charitable organizations, which typically require specific guidelines to be followed.

The IRS strongly scrutinizes this area, so we have developed this guidance for parishes and parish ministries to understand the compliance requirements and recommendations. Ultimately, the burden for showing compliance with the IRS tax laws falls upon each pastor and parish finance council.

According to the IRS, funds donated by individuals to foreign charities are generally not tax deductible, and the IRS lists gifts to foreign organizations under “nonqualified contributions.” However, there are 3 ways by which donated funds may be deemed tax-deductible: (1) funds directly paid by a donor to a 501c3 (which then issues a tax letter); (2) funds accumulated by the parish, and fully controlled and used (defined below; parish issues tax letter); or (3) funds accumulated by the parish, and then transferred to a 501c3 (which is provided donor details and then issues the tax letter).

Where the parish controls the funds and project, the parish must fully document the oversight and control over the use of funds, such that if ever questioned, the IRS would be satisfied as to compliance over exact usage of all funds. The parish ministry should be familiar with the IRS guidance in this area: IRS Publication 4221-PC Compliance Guide for 501c3 Public Charities, and the IRS web site for Charities and Not for Profits IRS.gov/EO. A video is also available on the AOA web site: <http://www.irsvideos.gov/InternationalActivitiesDomesticCharitableOrgs/player/frame-wm.htm>

Individual bank accounts or individual credit card usage is prohibited. Funds accumulated by a parish should use the parish bank account or credit card, and never involve an individual’s bank account or credit card.

Where there is any uncertainty as to how the funds are managed and used, or where a parish is unable to document compliance with the IRS rules, it is recommended that such donations made by parishioners be deemed non-tax deductible, including donations made to cover transportation costs.

Tax deductible donations made directly to a 501c3 organization do not require a parish to maintain detailed project documentation. Otherwise the ultimate determination of adequacy of the parish documentation is solely the responsibility of the pastor, parish finance committee and parish ministry, and generally entails extensive project documentation, on-site visits, periodic reviews of a project’s financial records, formal project budgets, the ability to allow or disallow specific expenses, and to ability to withdraw support of funds in the event of suspected inappropriate use.

Tax-deductible donated funds cannot be steered to cover any specific individual’s travel costs, lodging or air fare. For example, the IRS does not allow a family to have a tax deduction for donations made to cover their family member’s travel costs. Funds donated to a general ministry fund may be used to support group travel costs, or for individual travel costs, so long as a rigorous needs-based, documented assessment is done by an independent committee, and approved by the pastor. Ultimately, IRS guidelines as to donor intent must be complied with for any tax-deductible donations.

We recommend the attached checklist be used in handling 501c3 organizations, charity projects, collections and wire transfers, and approved by the pastor upon completion.

() ARCHBISHOP APPROVAL: Any second collection efforts used to accumulate funds must be approved by the Archbishop;

() PARISH CONTROLLED FUNDS: For funds accumulated by the parish, and fully controlled and used, documentation must be sufficient to comply with IRS requirements defined above.

() PARISH FUNDS SENT TO 501C3: For funds accumulated by the parish, and then transferred to a 501c3 – parish should provide details to the 501c3 to issue the tax letters; no tax letter should be generated by the parish.

() FUNDS FROM PARISH ACCOUNTS SENT TO 501C3 – any transfer of funds to a 501C3 by a parish must be done directly by the parish, from a parish bank account or a parish credit card, and never from an individual's own bank account or credit card.

() CASH AND INTERNATIONAL WIRES: any international wire transfers must be set up and processed through the Archdiocese; the wires will be funded by the Archdiocese, and the parish will be billed or transferred from the parish D&L account. Wires should always be sent directly to the international diocese or Bishop, and never to an individual, or his/her bank account. Physical transfer of cash is prohibited, given the difficulty of tracking the usage.

() TRAVEL COSTS: Any funds accumulated by the parish to support general or specific individual travel costs must comply with the guidelines defined above, as to a needs-based assessment, documented and approved by the pastor.

() FORMALIZED MINISTRY POLICIES: Where a 501c3 is not involved, a ministry committee must be established with the pastor's approval, with defined financial oversight, budgets, and funding, project scope, etc. The group also has the authority to withdraw support for the project if concerns are raised as to how funds are used. Formal records must be maintained at the parish for all project funding decisions, and be available for review by the parish finance council, pastor, internal auditors, and donors. Formal documentation should be created to substantiate any on-going relationship with a foreign parish.

() TAX LETTERS: may only be provided by a legitimate 501c3 organization, or the parish business office; any tax letters generated by a parish business office must exclude donations made to benefit specific individuals for travel costs, as described above.

() DONOR INTENT RESTRICTIONS: the parish management team should closely monitor the use of cash donations from parishioners, particularly as to intent of the donors, and when such donations are tax-deductible; clearly judgment is involved in monitoring the use of funds to make sure that donor intent is appropriate;

() REQUIRED SITE VISITS: tax-deductible projects that are managed by parish ministry requires periodic visits to the international charity project site. Projects funded solely through 501c3 organizations do not require such visits.

() OTHER GUIDANCE: IRS Publication 4221-PC Compliance Guide for 501c3 Public Charities, and the IRS web site for Charities and Not for Profits IRS.gov/EO. In addition to tax law, parishes should also be

aware of the US. Department of the Treasury Anti-Terrorist Financing Guidelines, and the USA Patriots Act, which prohibit certain international funding endeavors.

() USCCB OPTIONS: as an alternative to the burdensome work of financial oversight by a parish, the USCCB has extensive international charity programs all over the world, often targeting particular countries, and initiatives, where many parishes contribute to fund specific projects overseen and managed by the USCCB's efforts. By going through the USCCB, such donations are given tax-deductible status by the USCCB.

We recommend that parishes with any established relationships with international charitable efforts review these requirements, and consider the implications of inappropriate use of funds that might contribute to noncompliance with IRS tax laws and thereby jeopardize a parish's 501c3 status. Please direct any other questions about this to Michael Warren or Brad Wilson in the Finance Office of the Chancery.